

Ms. Trish Kelly, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road, Building 300
Sparks, Maryland 21152

Re: AC# 3-MIN-J7 – Magnolia Manor - Inman, Inc.

Dear Ms. Kelly:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

MAGNOLIA MANOR - INMAN, INC.

INMAN, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-MIN-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1998	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1997	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	12
COMMENTS AND RECOMMENDATIONS		14

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 22, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor - Inman, Inc., for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor - Inman, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations section of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor - Inman, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 22, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - INMAN, INC.
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-MIN-J7

	<u>10/01/98-</u> <u>11/30/98</u>	<u>12/01/98-</u> <u>09/30/99</u>
Interim reimbursement rate (1)	\$86.81	\$87.56
Adjusted reimbursement rate	<u>79.59</u>	<u>80.34</u>
Decrease in reimbursement rate	\$ <u>7.22</u>	\$ <u>7.22</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

MAGNOLIA MANOR - INMAN, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-MIN-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.53	\$48.65	
Dietary		8.35	9.44	
Laundry/Housekeeping/Maint.		<u>6.22</u>	<u>7.70</u>	
Subtotal	\$ <u>4.61</u>	56.10	65.79	\$56.10
Administration & Med. Rec.	\$ <u>4.85</u>	<u>5.53</u>	<u>10.38</u>	<u>5.53</u>
Subtotal		61.63	\$ <u>76.17</u>	61.63
<u>Costs Not Subject to Standards:</u>				
Utilities		1.93		1.93
Special Services		1.00		1.00
Medical Supplies & Oxygen		3.17		3.17
Taxes and Insurance		.94		.94
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		\$ <u>68.68</u>		68.68
Inflation Factor (3.60%)				2.47
Cost of Capital				6.44
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.26)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				\$ <u>79.59</u>

MAGNOLIA MANOR - INMAN, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-MIN-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.53	\$48.65	
Dietary		8.35	9.44	
Laundry/Housekeeping/Maint.		<u>6.22</u>	<u>7.70</u>	
Subtotal	\$ <u>4.61</u>	56.10	65.79	\$56.10
Administration & Med. Rec.	\$ <u>4.85</u>	<u>5.53</u>	<u>10.38</u>	<u>5.53</u>
Subtotal		61.63	\$ <u>76.17</u>	61.63
<u>Costs Not Subject to Standards:</u>				
Utilities		1.93		1.93
Special Services		1.00		1.00
Medical Supplies & Oxygen		3.17		3.17
Taxes and Insurance		.94		.94
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		\$ <u>68.68</u>		68.68
Inflation Factor (3.60%)				2.47
Cost of Capital				6.44
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.26)
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>80.34</u>

MAGNOLIA MANOR - INMAN, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,725,854	\$ -	\$ 38,053 (1) 2,799 (1) 2,257 (2) 46,568 (5) 506 (10) 62 (11)	\$2,635,609
Dietary	533,469	-	3,346 (1)	530,123
Laundry	164,944	-	28,838 (5) 73,469 (11)	62,637
Housekeeping	205,695	-	-	205,695
Maintenance	141,018	-	1,093 (1) 10,181 (5) 3,654 (11)	126,090
Administration & Medical Records	446,972	-	7,766 (1) 315 (1) 31,686 (6) 24,606 (7) 31,626 (11)	350,973
Utilities	133,062	-	10,903 (11)	122,159
Special Services	142,931	693 (12)	785 (1) 15,575 (11) 63,943 (13)	63,321
Medical Supplies & Oxygen	240,174	2,613 (4)	2,878 (3) 2,613 (4) 35,162 (5) 1,280 (12)	200,854

MAGNOLIA MANOR - INMAN, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	63,237	-	3,897 (11)	59,340
Legal Fees	1,045	-	103 (11)	942
Cost of Capital	410,556	15,125 (14)	648 (8) 8,054 (9) <u>8,581 (11)</u>	408,398
Subtotal	5,208,957	18,431	461,247	4,766,141
Ancillary	103,162	2,878 (3) 8,269 (5)	-	114,309
Non-Allowable	275,874	54,157 (1) 2,257 (2) 112,480 (5) 31,686 (6) 24,606 (7) 8,054 (9) 506 (10) 147,870 (11) 587 (12) <u>63,943 (13)</u>	15,125 (14)	706,895
Total Operating Expenses	<u>\$5,587,993</u>	<u>\$475,724</u>	<u>\$476,372</u>	<u>\$5,587,345</u>
TOTAL PATIENT DAYS	<u>63,456</u>	<u>-</u>	<u>-</u>	<u>63,456</u>
TOTAL BEDS	<u>176</u>			

MAGNOLIA MANOR – INMAN, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 54,157	
	Nursing		\$ 38,053
	Restorative		2,799
	Dietary		3,346
	Maintenance		1,093
	Administration		7,766
	Medical Records		315
	Therapy		785
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	2,257	
	Nursing		2,257
	To remove prior period expense HIM-15-1, Section 2302.1		
3	Ancillary	2,878	
	Medical Supplies & Oxygen		2,878
	To reclassify specialty bed expense from nursing supplies to ancillary State Plan, Attachment 4.19D HIM-15-1, Section 2304		
4	Medical Supplies & Oxygen - Oxygen	2,613	
	Medical Supplies & Oxygen - Nursing Supplies		2,613
	To reclassify oxygen from Nursing Supplies State Plan, Attachment 4.19D DH&HS Crosswalk		

MAGNOLIA MANOR – INMAN, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Ancillary	8,269	
	Nonallowable	112,480	
	Nursing		46,568
	Laundry		28,838
	Maintenance		10,181
	Medical Supplies & Oxygen		35,162
	To disallow expenses not adequately documented, remove prior period expense, and reclassify specialty beds to ancillary HIM-15-1, Sections 2302.1 and 2304 State Plan, Attachment 4.19D		
6	Nonallowable	31,686	
	Administration		31,686
	To disallow administration purchased services due to lack of documentation HIM-15-1, Section 2304		
7	Nonallowable	24,606	
	Administration		24,606
	To disallow undocumented interest expense HIM-15-1, Section 2304		
8	Fixed Assets	13,470	
	Accumulated Depreciation	11	
	Cost of Capital		648
	Other Equity		12,833
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Other Equity	88,429	
	Nonallowable	8,054	
	Accumulated Depreciation	15,734	
	Fixed Assets		104,163
	Depreciation Expense		8,054
	To disallow expenses not adequately documented HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR – INMAN, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Restorative	506	506
	To disallow related party expenses not adequately documented HIM-15-1, Section 2304		
11	Nonallowable	147,870	
	Nursing		62
	Laundry		73,469
	Maintenance		3,654
	Administration		31,626
	Legal		103
	Utilities		10,903
	Taxes and Insurance		3,897
	Therapy		15,575
	Cost of Capital		8,581
	To disallow home office and related party laundry expense due to lack of documentation Him-15-1, Section 2304		
12	Nonallowable	587	
	Therapy	693	
	Medical Supplies & Oxygen		1,280
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Nonallowable	63,943	
	Special Services		63,943
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		
14	Cost of Capital	15,125	
	Nonallowable		15,125
	To adjust capital return to allowable State Plan, Attachment 4.19D		

MAGNOLIA MANOR – INMAN, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Memo Adjustment: To increase total square footage by 16,730 square feet from 38,370 to 55,100 square feet per the State Auditor's Office September 30, 1990 report		
	TOTAL ADJUSTMENTS	<u>\$593,368</u>	<u>\$593,368</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MAGNOLIA MANOR – INMAN, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>176</u>
Deemed Asset Value	5,996,144
Improvements Since 1981	304,314
Accumulated Depreciation at 9/30/97	<u>(817,340)</u>
Deemed Depreciated Value	5,483,118
Market Rate of Return	<u>0.067</u>
Total Annual Return	367,369
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	367,369
Depreciation Expense	41,777
Amortization Expense	-
Capital Related Income Offsets	(748)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	408,398
Total Patient Days (Actual Days)	<u>63,456</u>
Cost of Capital Per Diem	\$ <u><u>6.44</u></u>

MAGNOLIA MANOR – INMAN, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MIN-J7

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$2.92
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.91</u>
Reimbursable Cost of Capital Per Diem	\$6.44
Cost of Capital Per Diem	<u>6.44</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

The provider's accounting records did not adequately support expenses claimed. Many of the items requested were never made available. Some of the items include: payroll registers, the cash receipts journal, census records, audited worker's compensation premiums, support for working trial balance adjustments, invoices, general ledger journal entry support, and all records related to the home office expenses.

HIM-15-1, Section 2304 states:

“Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records, and original evidences of cost . . . which pertain to the determination of reasonable cost, capable of being audited.”

By not maintaining sufficient documentation, to support cost claimed, the provider overstated expenses.

We recommend the provider maintain detailed records which sufficiently support expenses claimed and provide the Medicaid auditors access to all requested records in a timely fashion.